

Supermarkets brace for next Wal-Mart move

Discounter to launch supercentres in Canada that add fresh food to the mix

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RETAILING REPORTER

Discounter **Wal-Mart Canada Corp.** will launch two or three massive superstores in the next year or so by bulking up on groceries and other items in a move that promises to transform the retailing landscape — and squeeze supermarkets' businesses.

The advent of the Wal-Mart supercentre has been widely anticipated — and feared — in retailing circles for years as the world's largest merchant rapidly expanded its presence in Canada since arriving in 1994.

U.S. supermarkets have been devastated by the impact of parent Wal-Mart Stores Inc.'s supercentres, which combine full supermarkets with general merchandise. In Canada, grocers will feel the pinch, although they are better positioned to handle an onslaught because they already run discount divisions, industry observers say.

"This is a big deal for the supermarket industry as Wal-Mart appears to now be ready to fire a shot at the supermarket leaders," said

Rick Pennycooke, president of retail development consultancy Lakeshore Group.

"Wal-Mart doesn't do things in a half-baked way . . . They're not going to do a one-off. It will impact everybody."

Industry insiders agreed. "They're a very strong company and they're doing very well with their supercentres in the U.S.," said Louise Wendling, who heads Costco Wholesale Canada Ltd.

"Whatever moves they're going to make, it's going to affect the market share of all players."

Wal-Mart spokesman Andrew Pelletier confirmed in an interview that it will roll out its first two or three supercentre-like stores in Ontario in late 2006 or early 2007.

The chain has yet to decide on future expansion, or whether to name them supercentres, as they are called elsewhere, he said.

While Wal-Mart already carries groceries at most of its 256 stores, the supercentres will also sell fresh produce and meats, delicatessen and bakery products, he said.

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As well, it will add more apparel, electronics and home decor items to supercentres because consumers want more of this merchandise.

"We see this as an evolutionary approach," Mr. Pelletier said yesterday.

"It is very much a work in progress. It will be similar to supercentres in the U.S. We are just referring to them as expanded Wal-Mart stores" for now.

U.S. supercentres are almost twice as big as regular Wal-Mart stores. In Canada, the selling space will range to almost 190,000 square feet, while standard Wal-Marts are closer to 120,000 square feet, Mr. Pelletier said.

The company's key developer, First Pro Shopping Centres, has applied for municipal approvals for a superstore in east-end Toronto and in London, Ont. The latter store would be an expansion of an existing site.

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Retailers have been bracing for the arrival of Wal-Mart's supercentres for years.

Loblaws Cos. Ltd., Canada's leading grocery chain, has been preparing by expanding its own superstores, which combine general merchandise and supermarket products.

The No. 2 and No. 3 grocers, Sobey's Inc. and Metro Inc., will feel the pain of the Wal-Mart supercentre the most, Mr. Pennycook, the consultant, predicted. Loblaws may fare a little better.

Nevertheless, Loblaws has run into snags in developing new systems for its expansion. Its stock price has tumbled this year as profit slumped because of unexpected glitches and delays in its retooling. Shoppers have noticed the problems: Many haven't been able to find in-demand products on the store shelves.

Wal-Mart had originally planned to put one of its Sam's Club ware-



SANDY HUFFAKER/BLOOMBERG NEWS

Shoppers check out the selection at a Wal-Mart supercentre in California. Two to three of the outlets will open in Canada in the next year or so.

house club stores on the Toronto site now slated for a supercentre, a city official said.

Indeed, Wal-Mart has been stalled in its expansion of Sam's Club, having opened only six of them since launching the first ones in the fall of 2003.

Industry watchers have considered that Sam's Club, which carries fresh foods, was the first step to Wal-Mart rolling out supercentres, giving the company the groundwork to move into a full selection of groceries.

"Everyone knows the Sam's Club program is halted," one source said. "They can't get the new ones working."

Some sources have suggested that Wal-Mart may convert its six existing Sam's Club stores to supercentres, although they would need to be reconfigured substantially.

Nevertheless, Mr. Pelletier insisted that Wal-Mart is committed to Sam's Club, and targeting them more to small-business customers looking to buy in bulk.

He denied that Wal-Mart plans to

turn Sam's Club stores into supercentres.

Monique Dubord, vice-president of leasing at developer First Capital Realty Inc., said it's no big surprise that Wal-Mart is mapping out supercentres for Canada.

"Certainly it's not unexpected that Wal-Mart would be rolling out the food at some point," said Ms. Dubord, whose company specializes in supermarket-anchored shopping centres.

Wal-Mart has been adding more food to its namesake stores over the

past few years, but they don't carry fresh produce or meat, or bakery goods.

And while Wal-Mart had no specific expansion plans for supercentres, retail insiders note that Wal-Mart's newest outlets call for a 45,000-square-foot expansion area — presumably for a future supercentre.

In the United States, Wal-Mart has more than 1,700 supercentres at an average size of almost 190,000 square feet — and is rapidly expanding the chain.